



BASF SE (BASFY)

Updated October 28th, 2021 by Derek English

Key Metrics

Current Price:	\$18.40	5 Year CAGR Estimate:	8.1%	Market Cap:	\$62.20B
Fair Value Price:	\$19.60	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	04/30/21
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.3%	Dividend Payment Date:	05/04/21
Dividend Yield:	5.4%	5 Year Price Target	\$23	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	0.00%

Overview & Current Events

BASF SE (BASFY) is a multinational chemical company headquartered in Germany. Founded in 1865, BASF operates in over 80 countries worldwide and employs more than 117,000 people. BASF organizes its operating businesses under six main segments: Chemicals, Materials, Industrial Solutions, Surface Technologies, Nutrition & Care, and Agricultural Solutions. The underlying security BASF is listed on the Frankfurt and London exchanges. The ADR was delisted on the NYSE in 2007¹; however, the company still maintains the ADR program. Each ADR (BASFY) represents one-fifth of a BASF share. While BASF reports all their financial statements in euros, we will focus on the numbers from the ADR in U.S. dollars using fx rates at the end of each fiscal year.

BASF released Q3 2021 results on October 27th, 2021. The company posted strong results despite supply chain issues in the manufacturing sector. The global chip shortage has led to a drop in production in the automotive industry, while power cuts in China hurt production. Despite these setbacks, the companies sales grew 42% compared to Q3 2020, mainly due to higher prices in all segments and a 6% rise in volume. EBIT again saw a considerable increase this quarter and rose by \$1,489 million to \$2,163 million. This was driven by the significantly higher EBIT before special items in the Chemicals segment. Surface Technologies also increased by 26%, attributable to significantly higher precious metal prices in the Catalysts division.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.46	\$1.62	\$1.70	\$1.90	\$1.22	\$1.22	\$1.85	\$1.51	\$2.56	(\$0.59)	\$1.51	\$1.75
DPS	\$0.76	\$0.77	\$0.85	\$0.92	\$0.79	\$0.81	\$0.84	\$0.92	\$0.91	\$0.98	\$0.94	\$1.06
Shares	3678	3674	3679	3682	3683	3679	3678	3685	3681	3681	3681	3681

BASF's earnings have grown 0.5% since 2011. However, in 2011 earnings were given a boost by the sale of K+S Aktiengesellschaft. Earnings have grown at a CAGR of 6.8% from 2012 until 2019. We have seen a negative EPS due to impairments of assets at the Wintershall Dea group in 2020. BASF has an IPO for Wintershall Dea planned beyond 2021, depending on market conditions. In the next five years, we expect ~3% growth based on the average oil price of \$50 for a barrel of Brent crude and an exchange rate of \$1.18 per euro. Our predicted \$1.51 EPS for 2021 is on track as the company posted earnings of \$0.36, and the average oil price are closer to \$70. Since the last dividend cut in 2009, BASF has grown its dividend for the previous 11 years. The 5-year CAGR was 3%. Unlike 2009, the company has made a clear commitment to raising the dividend each year. It is unusual for a European company to declare this commitment, but we had seen that they had held the dividend this year even when the payout ratio was above 100% due to one-off events. Therefore, we estimate a 3% dividend growth rate over the next five years.

¹ <https://www.basf.com/global/en/investors/share-and-adrs/adrs-for-us-investors/p-07-350.html>

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	10.3	12.8	13.6	15.1	20.0	16.5	13.2	17.2	7.9	N/A	12.2	13.0
Avg. Yld.	3.0%	3.7%	3.7%	3.2%	3.2%	4.0%	3.4%	3.5%	4.5%	6.0%	5.4%	4.7%

At 5.4%, BASFs' dividend yield is above its five-year average of 4.3%. This is an attractive yield compared to the average of the S&P 500, which is 1.29%². The current P/E ratio of 12 is very close to the five-year average P/E of 14. We expect earnings to follow the same trend as the previous five years with mid-single-digit growth of around 3%, provided we do not see more prolonged lockdowns due to the coronavirus. We are predicting a P/E ratio of 13 by 2026. Our relatively low fair value P/E is based on the historical share price not growing since 2005 and a 3% earnings growth rate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	31%	47%	50%	49%	65%	66%	45%	61%	35%	-166%	62%	61%

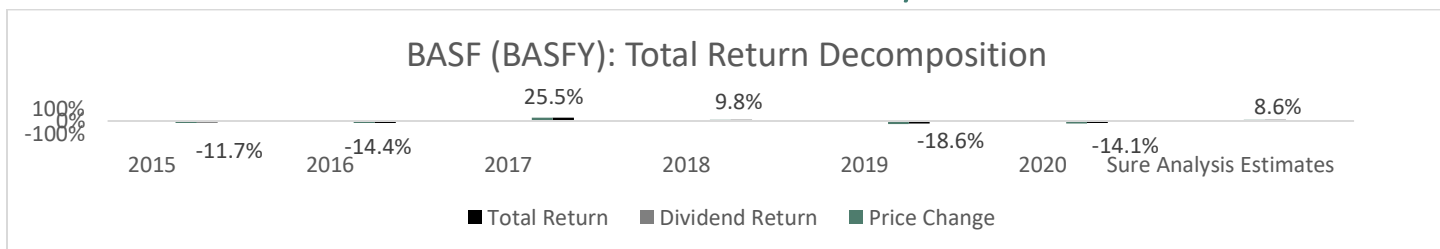
BASF aims to add value through the efficient use of resources in a concept called Verbund. The Chemicals segment is at the heart of the Verbund concept. Its production facilities supply BASF's segments with basic chemicals and intermediates to produce higher value-added products. In this way, the segment makes a significant contribution to BASF's organic growth. Chemical production is predicted to grow at 4% a year over the next three years, with Asia being a key growth driver. After a difficult 2020, we have already begun to see this growth occur, with the last four quarters posting sales increases. In addition, the company announced a joint venture with Shanshan, which will focus on the rapidly growing electric vehicle (E.V.) and battery cell market. They also announced the purchase of a 49% stake in Vattenfall's Hollandse Kust Zuid wind.

During the last recession, revenue and earnings were hit hard, leading the company to cut its dividend. However, they returned to growth in 2010 and began increasing the dividend again. Over the last five years, the board has made it a goal to increase the dividend every year. While they did not increase the dividend in 2020, BASF did not cut the dividend for F.Y. 2020, which was paid on May 4th, 2021. The company only pays a dividend once a year, and F.Y 2021 dividend is expected to be announced next April.

Final Thoughts & Recommendations

With expected earnings per share growth rate of 3%, a dividend yield of 5.4%, and a low single-digit contribution from valuation expansion, we estimate a total return of 8.6% annually for BASF SE through 2026 at current prices. Our 2026 price target is \$23. Despite supply chain issues, the company's guidance is positive, and they have made some good acquisitions in the renewable and EV sectors. Overall, BASF is a good solid company that generates enough free cash flow to sustain its dividend. However, we prefer securities to return above 10% and still rate BASF as a hold.

Total Return Breakdown by Year



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² <https://www.multpl.com/s-p-500-dividend-yield>

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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	84664	102479	92731	98243	98842	78177	63694	69336	71108	66404
Gross Profit	24605	27205	22965	24433	24585	21170	20237	22233	20435	18197
Gross Margin	29.1%	26.5%	24.8%	24.9%	24.9%	27.1%	31.8%	32.1%	28.7%	27.4%
SG&A Exp.	10389	12044	11321	11677	11772	10532	10073	10772	10711	10324
D&A Exp.	4497	4767	4227	4401	4595	4936	4749	4771	4428	4722
Operating Profit	11199	12598	8488	9416	9394	7104	7259	8620	7186	4823
Operating Margin	13.2%	12.3%	9.2%	9.6%	9.5%	9.1%	11.4%	12.4%	10.1%	7.3%
Net Profit	6040	8628	6195	6364	6855	4424	4489	6883	5558	9427
Net Margin	7.1%	8.4%	6.7%	6.5%	6.9%	5.7%	7.0%	9.9%	7.8%	14.2%
Free Cash Flow	5185	5152	3326	4286	2210	4033	3953	5424	4776	4086
Income Tax	3047	3300	1170	1975	2275	1384	1262	1461	1319	846

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	78990	77060	82882	88657	86774	77445	80869	94498	99011	97399
Cash & Equivalents	1986	2465	2187	2523	2089	2450	1454	7792	2631	2719
Accounts Receivable	13522	13149	14321	14130	12628	10404	11578	12958	12200	10186
Inventories	11555	12533	13581	13881	13585	10522	10482	12278	13782	12457
Goodwill & Int. Ass.	16285	15349	16246	17018	15768	13707	16029	16309	18936	16270
Total Liabilities	48857	44399	49062	50445	52488	42957	46439	52801	57706	49960
Accounts Payable	6301	6252	7645	7116	5911	4395	4874	5964	5859	5698
Long-Term Debt	20001	16195	16925	20928	19844	17266	17751	22227	24369	21240
Shareholder's Equity	28466	31314	32535	37343	33579	33800	33625	40594	40098	46484
D/E Ratio	0.70	0.52	0.52	0.56	0.59	0.51	0.53	0.55	0.61	0.46

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	7.9%	11.1%	7.7%	7.4%	7.8%	5.4%	5.7%	7.9%	5.7%	9.6%
Return on Equity	22.6%	28.9%	19.4%	18.2%	19.3%	13.1%	13.3%	18.5%	13.8%	21.8%
ROIC	12.3%	17.4%	12.4%	11.6%	12.1%	8.4%	8.6%	11.9%	8.6%	14.0%
Shares Out.	3674	3678	3674	3679	3682	3683	3679	3678	3685	3681
Revenue/Share	23.04	27.86	25.24	26.70	26.84	21.23	17.31	18.85	19.30	18.04
FCF/Share	1.41	1.40	0.91	1.16	0.60	1.09	1.07	1.47	1.30	1.11

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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